Half Year Report

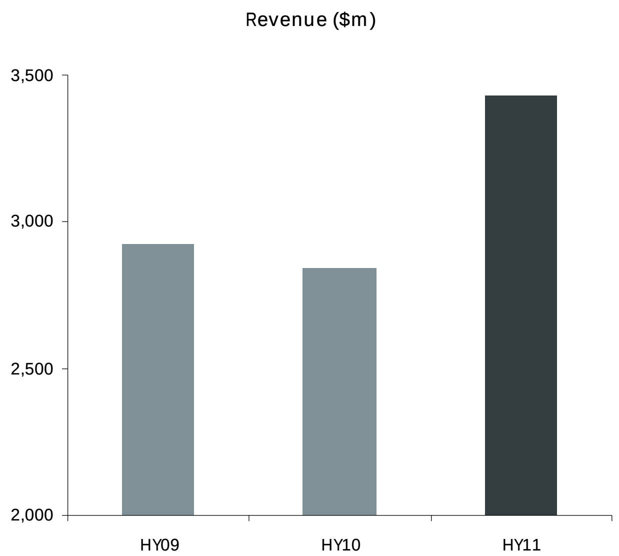
Six months to 31 December 2010

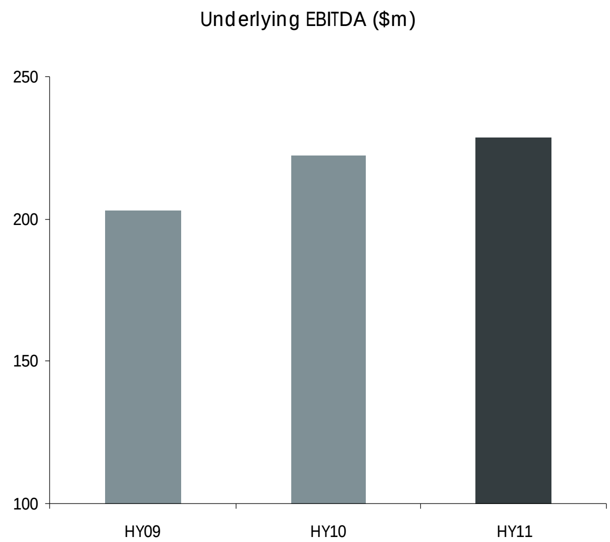
Downer

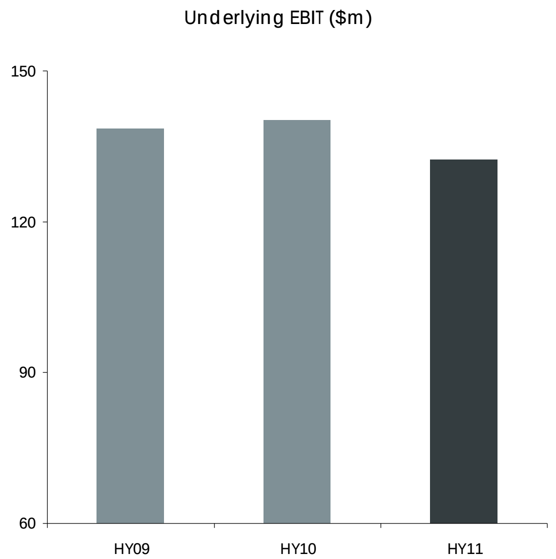
Financial Performance

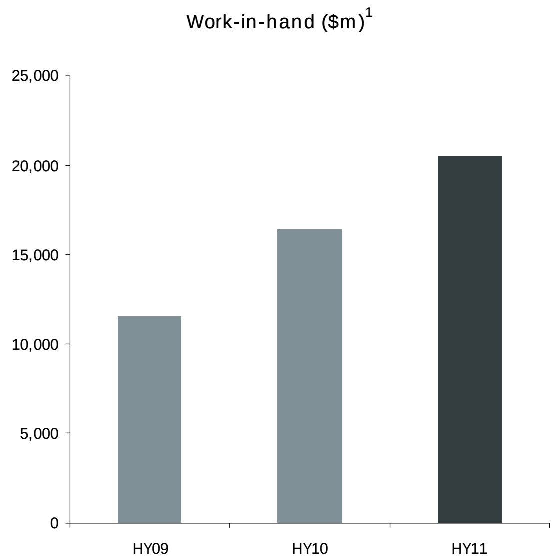
$m	HY11 $'000	HY10 $'000	Change (%)
Total revenue	3,429.1	2,841.4	20.7
EBITDA[1]	228.7	222.0	3.0
EBIT[1]	132.4	140.2	(5.5)
Net interest expense	(34.9)	(26.7)	31.0
Tax expense[1]	(26.3)	(26.5)	0.7
Net profit after tax[1]	71.2	87.0	(18.2)
ROFE[1]	17.2%	16.4%	-
Operating cash flow	185.9	269.2	(30.9)

[1] EBITDA, EBIT, Tax expense, NPAT and ROFE exclude the $250m provision relating to the Waratah train project.









[1] The methodology for calculating work-in-hand was revised in FY09 to include an estimate of recurring revenue streams.

Downer

HALF YEAR TO 31 DECEMBER 2010

Financial Performance

Downer reported total revenue of $3.4 billion for the six months to 31 December 2010, 20.7% higher than the previous corresponding period.

This strong revenue growth was driven by the Mining, Rail and Engineering divisions and offset by lower revenue from the Works division, including Downer New Zealand. The divisional contributions to Group revenue were: Mining $634.2 million (up 31.2%); Rail $667.5 million (up 45.7%); Engineering $1,171.8 million (up 34.7%); and Works $957.0 million (down 5.4%).

Downer currently has work-in-hand worth $20.5 billion comprising the following divisional contributions: Engineering $2.2 billion; Mining $7.6 billion; Rail $5.4 billion; and Works $5.3 billion.

On 27 January 2011, Downer announced a pre-tax provision of $250.0 million in respect of the Waratah train project. As a result of this provision, Downer reported a net earnings before interest and tax (EBIT) loss of $117.6 million and a net loss after tax of $103.8 million.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) was $228.7 million, 3.0% higher than the previous corresponding period.

Underlying EBIT was $132.4 million, 5.5% lower than the previous half year, and underlying net profit after tax (NPAT) was 18.2 % lower at $71.2 million.

Underlying operating cash flow remains strong at $185.9 million, which is 140.4% of underlying (EBIT). After $62.3 million of cash outflows relating to the Waratah train project, operating cash flow was $123.6 million.

As foreshadowed at Downer's Annual General Meeting on 3 November 2010, the main reasons for the lower underlying EBIT and NPAT for the half year were:

- for Downer Works, prolonged wet weather conditions around Australia and particularly in Queensland, New South Wales and Victoria;
- for Downer Works, including Downer New Zealand, a combination of both lower and deferred government expenditure;
- for Downer New Zealand, ongoing tough economic conditions, wet weather and restructuring costs;
- for Downer Engineering and Downer Works, intense competition with significant pressure on margins;
- for Downer Engineering, underperformance of certain contracts; and
- for Downer Group, restructuring and redundancy costs of $7.7 million.

The impact of these market and environmental conditions were partially offset by strong performance by both the Mining and Rail divisions which continue to benefit from growth in the resources sector.

At 31 December 2010, Downer had gearing of 35.7 % and liquidity of $838.4 million, comprising cash of $322.5 million and undrawn committed facilities of $515.9 million.

Downer today announced it would undertake a fully underwritten 1 for 4 renounceable entitlement offer to all eligible shareholders to raise approximately $279 million. Eligible investors should refer to the separate announcement lodged with the Australian Securities Exchange (ASX) and available on the Downer website (www.downergroup.com).

Given that Downer is raising capital from shareholders and has no available franking credits to distribute, the Board has decided not to declare an interim dividend. Downer will assess whether to resume paying dividends at the full year.

Downer will continue to pay dividends on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

Wet Weather

According to the Australian Government Bureau of Meteorology[1], 2010 was Australia's wettest July to October on record and also the wettest July to December on record. In addition, December was the wettest on record for Queensland and eastern Australia, and the third wettest on record for Australia as a whole.

While there was no single weather event that had a material effect on the company, the total impact of extreme wet weather on Downer Group's EBIT during the half year was $23.0 million, with $11.2 million relating to the Australian Works business. There was a $6.5 million impact on Mining and a $4.0 million impact on Engineering.

Downer budgets for adverse and inclement weather, however the conditions experienced during the six month period were more severe and more prolonged than historic patterns.

The wet weather had a particularly significant impact on Downer Works because most road and rail infrastructure work cannot be carried out in these conditions. Projects are delayed, productivity is negatively affected, margins are eroded and opportunities are lost.

Governance

Grant Fenn was appointed Chief Executive Officer of Downer on Friday, 30 July 2010 following the resignation of Geoff Knox. Mr Fenn was previously Chief Financial Officer of Downer. Kevin Fletcher, Downer's Deputy Chief Financial Officer, was appointed Acting Chief Financial Officer at the same time and then appointed Chief Financial Officer in November 2010.

The process of Board renewal continued during the half year. Peter Jollie AM did not stand for re-election as Chairman at the company's Annual General Meeting on 3 November 2010 and Mike Harding was appointed Chairman. Mr Harding was previously Deputy Chairman of Downer and has been an independent Non-executive Director of Downer since July 2008. Dr Grant Thorne was appointed a Non-executive Director of Downer on 1 July 2010 and Chris Renwick retired as a Non-executive Director on 9 December 2010 after serving on the Board for six years.

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[1] Special Climate Statement 24 issued 7th January 2011

Downer will continue the process of Board renewal in 2011, including filling an existing vacancy.

Zero Harm

Downer's Lost Time Injury Frequency Rate for the half year was 0.98 per million hours worked, 4% lower than the previous corresponding period and an industry leading performance. Total Recordable Injury Frequency Rate was 10% lower at 7.77 per million hours worked.

Zero Harm is embedded in Downer's culture and is fundamental to the company's future success. Zero Harm means sustaining a work environment which supports the health and safety of Downer's people and minimises the impact Downer's business has on the environment.

Downer has been included in the Carbon Disclosure Project's Carbon Disclosure Leadership Index for the second year running and is the only contracting organisation listed in this Index. The Carbon Disclosure Project was established in 2000 and is an independent, not-for-profit organisation sponsored by governments and major investment institutions to accelerate solutions to climate change.

An example of Downer's contribution to sustainable development is the use of alternative fuels by the Downer Mining fleet to reduce consumption of traditional fossil fuels. Downer Mining is now the largest consumer of B20 biodiesel in the Australian mining sector.

Downer's 2010 Sustainability Report will soon be available on the Downer website (www.downergroup.com).

Establishment of Downer Australia

Downer announced on 22 February 2011 that its Australian Works, Engineering and Emerging Sectors businesses would be combined into one division, Downer Australia. The announcement is available on the Downer website (www.downergroup.com).

As a result of the change, Downer Group will consist of four divisions – Downer Australia, Downer New Zealand, Downer Mining and Downer Rail.

Downer Australia will have annual revenue of almost $3 billion and employ over 7,000 people. It has significant scale and will provide a stronger platform for servicing Downer's customers and growing Downer's business.

There is costly duplication of systems and support structures across the Engineering and Works divisions and Downer Australia will deliver cost savings by creating a more efficient operating structure.

The creation of Downer Australia follows an extensive review of the Group's operating divisions and is consistent with Downer's strategy to be aligned around customers and markets.

It will ensure Downer is better positioned to take advantage of growth opportunities in Western Australia and to extend and grow its infrastructure and asset management services.

The transition to Downer Australia will be implemented progressively. Downer will report its 2011 results in line with the divisional structure that has been in place for several years, that is:

Engineering (including Consulting and Asia); Mining; Rail; and Works (including New Zealand). Downer will start reporting in line with the new structure in the 2012 financial year.

Fit for Business

Downer launched Fit for Business, a five year program targeting $250 million in savings across the Group, at its Full Year Results announcement in August 2010. Fit for Business will:

- build Downer's capability to efficiently and profitably meet customer needs;
- transform Downer's productivity and culture through significant and sustainable change to business models and processes; and
- encourage innovation and leverage the Group's skills and scale more effectively by empowering and engaging our people to determine and execute business improvement projects.

Fit for Business initiatives in the 2011 financial year include:

- a range of operational and organisational improvement initiatives;
- extending national procurement arrangements and consolidating office sites;
- restructuring back office activities across the business; and
- transforming IT infrastructure and rationalising IT equipment.

Waratah Update

In December 2010, following the appointment of the new Waratah Project Director, Ross Spicer, a detailed review of the Waratah project was undertaken as part of the Company's quarterly projects review process. An interim project report was tabled on 24 January 2011 which indicated that the existing project timetable and forecast cost to complete should be revised materially as a result of the following:

- an expected further delay to presenting the first train set to RailCorp for Practical Completion (PC);
- expected delays in production of subsequent trains as a result of asbestos in the Cardiff manufacturing facility (Cardiff); and
- more extensive changes being required to engineering and production processes to facilitate the high-volume assembly that is required for this large-scale and complex project.

On 24 January 2011, in response to the issues raised in the interim project report, Downer was granted a trading halt by the Australian Stock Exchange (ASX). The trading halt was lifted following the announcement by the Company on 27 January 2011 that a further onerous contract provision of $250 million would be required in respect of the Waratah project.

To address the issues identified, a revised Waratah project program has now been completed. The program provides for the production of trains in three distinct phases:

1. train Sets 1 to 15 (which have either been delivered to Australia or are in the process of being manufactured by CRC at Changchun, China (CRC or China)), will require significant re-work of the interior fit-out and related areas due to elements of the train design that have made assembly in China difficult;
2. train Sets 16 to 25 will be built to a first configuration freeze (Configuration Freeze 1) that will incorporate a number of 'quick win' initiatives to aid production of the

bodyshell and interior fit-out in China, coupled with a temporary transfer of a limited amount of interior fit-out to Cardiff pending resolution of design and assembly changes to address production issues; and

3. train Sets 26 to 78 will be built based on a second configuration freeze (Configuration Freeze 2) following re-design of certain components and assemblies to achieve production rates and required quality levels, particularly in the interior fit-out. The program assumes that the interior fit-out transferred to Cardiff under stage 2 (approximately 26%) will continue to be undertaken at Cardiff during phase 3. An assessment will be made upon completion of the re-design and production process improvement exercises to determine when the scope can be transferred back to China.

The specific train Sets that are completed in each phase may vary depending on the progress in implementing changes to the train design and production processes that are outlined below.

In terms of delivery of train Sets to RailCorp, and entry into passenger service, the manufacturing program is targeting the following milestones:

- train Set 1 will be presented to RailCorp for PC between late April and July 2011;
- train Sets 2 to 6 being progressively delivered to RailCorp for PC between July 2011 and October 2011;
- train Set 7 entering passenger service late October 2011 following the achievement of reliability performance targets by train Sets 1 to 6; and
- train Set 78 being delivered to RailCorp and entering passenger service in the first half of calendar 2014.

Key assumptions underpinning the manufacturing program include:

- the project management team acquires the requisite experience in high-volume train build projects and complementary project management skills;
- resolution of the minor defects list including software issues on train Set 1 to enable presentation to RailCorp for PC;
- the estimated completion timetable and man hours associated with Cardiff re-work are achieved for train Sets 1 to 15 in Cardiff (train sets 1 and 2 are substantially completed);
- productivity and quality improvements relating to the introduction of flow-line production methodology into Cardiff are achieved;
- the ‘quick win’ initiatives introduced for Configuration Freeze 1 and the temporary transfer of a limited amount of interior fit-out to Cardiff results in the estimated improvement in production rate and quality in China and reduced levels of re-work in Cardiff for trains 16 to 25;
- the re-design of certain components and assemblies to achieve the estimated production rates and required quality levels, particularly in the interior fit-out in China;
- achieving the reliability performance targets for train Sets 1 to 6 to allow subsequent trains to be delivered without undue disruption;
- the trains must meet certain performance thresholds, failure of the trains to meet the required benchmarks is likely to result in additional costs being incurred by Downer;

- Reliance Rail continues to honour its contractual obligations; and
- that RailCorp will adopt a reasonable industry approach to the acceptance of the Waratah trains for passenger service through the manufacture phase of the project and the required track access will be made available to allow the project to achieve reliability and growth targets.

The forecast cost to complete includes a specific contingency with potential liquidated damages to allow for a level of slippage in the targeted manufacturing program delivery milestones as there are a number of assumptions and risks existing within the revised program.

This specific contingency allows for train Sets to enter passenger service as follows:

- train Set 1 - June 2011;
- train Set 6 - January 2012;
- train Set 7 - April 2012; and
- train Set 78 - June 2014.

These assumptions have been made for financial purposes only and the company will work closely with RailCorp to achieve the milestones currently targeted in the manufacturing program.

The general contingency of $73 million included in the forecast cost to complete however will not cover all possible outcomes.

Further information in relation to the Waratah train project is provided in the Condensed Consolidated Financial Report (Appendix 4D) lodged with the ASX.

Risk Management

Downer continues to enhance its risk management processes and is currently standardising its approach to contract bidding, execution and project monitoring across all operations. The process is becoming well established with regular, detailed reviews completed across all divisions.

Depending on the value and complexity of a tender, requests from a division to prepare a tender response are submitted for approval to either the:

- Board Tender Review Committee (TRC);
- Tender and Capital Committee (TCC); or
- Divisional CEO.

Authority to approve a tender is based on financial criteria. Where the contract value:

- exceeds $250 million, TRC approval is required in addition to TCC endorsement and Group CEO approval;
- is less than $250 million and greater than $30 million, TCC endorsement and Group CEO approval is required; and
- is less than $30 million, approval is within the delegated authority of divisional CEOs, except for contracts with special risk features (e.g. for non-value related risks such as technology or geographic risk) which require TCC review and approval.

These authority levels apply to each stage of the approval process.

While contract value is the key screening criteria for determining the appropriate level of tender approval, the following factors are assessed to determine whether or not a tender is endorsed and recommended for approval:

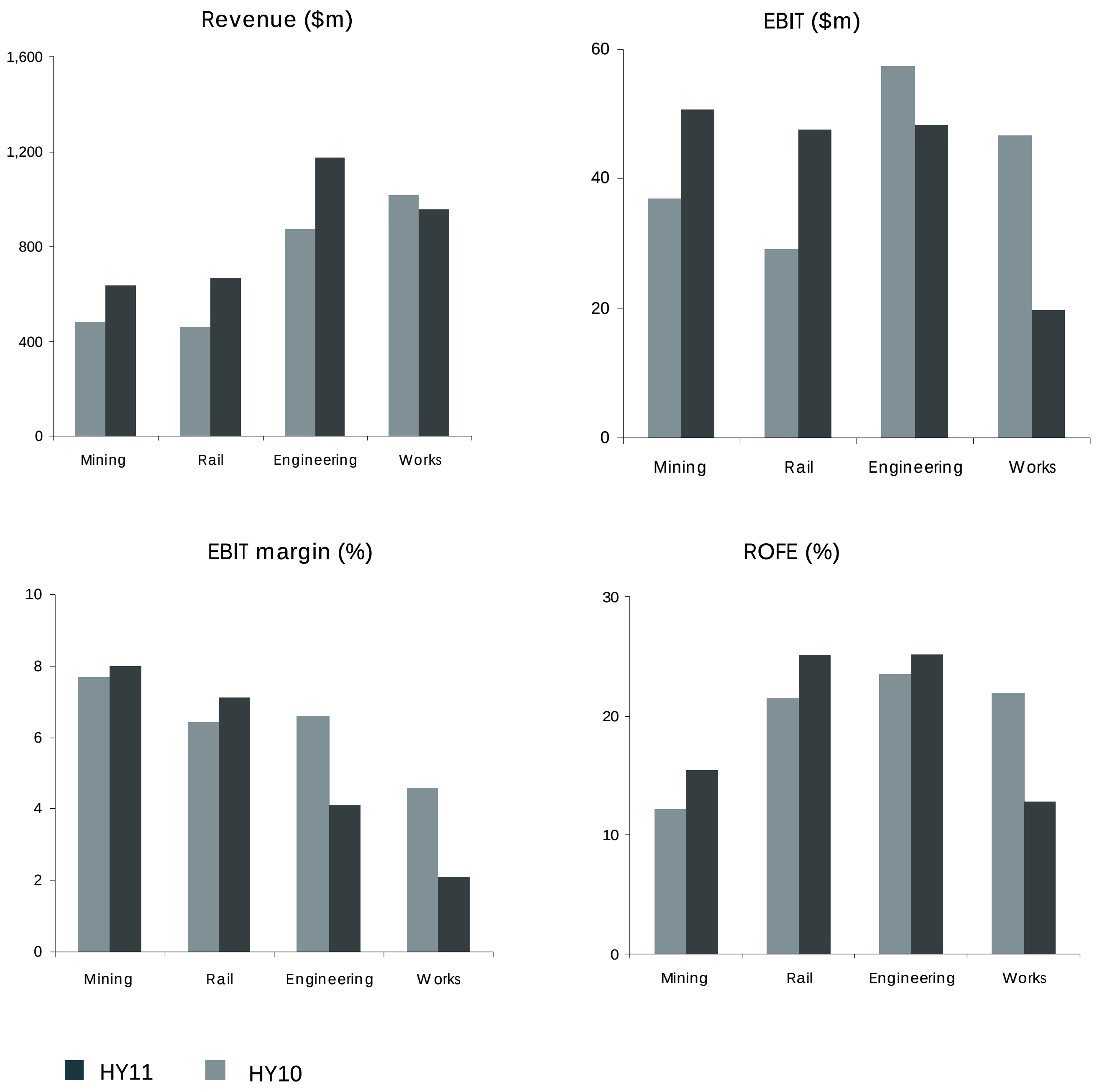
- Safety and environmental issues;
- The market sector where the work will be undertaken because each has its own specific risk profile and market norms;
- Financial returns and capital expenditure;
- Compatibility with Downer Group capabilities;
- Previous relationship with the client;
- Where the contract work will be performed;
- Key contract terms and conditions;
- The contract type (fixed price, cost plus, schedule of rates or alliance); and
- Project execution risk.

Each stage of approval requires the relevant division to undertake an assessment of each of the above criteria.

Regular Contract Reviews are conducted through the Corporate Office covering:

- Monthly Project Valuation Review - These reviews are undertaken for all projects with revenue greater than $10 million and cover the project financial report and valuation analysis;
- Monthly Detailed Project Review – These reviews cover the project's financial, commercial and operational status; identify and analyse key issues in order to establish their underlying causes; establish and regularly monitor improvement and remedial strategies for improving margins and/or mitigating losses; and review project resourcing;
- Quarterly Project Valuation Review – These provide a thorough desktop review with CEO/CFO/ COO and divisional executive management and the project manager; and
- Project Completion Reviews – These document actual performance results (margins and productivity) and other learning's to support future tenders and projects.

Operational Performance



1. Downer Mining

Downer Mining performed strongly during the half year despite the impact of wet weather. There continues to be strong demand for contract mining services and Downer Mining remains a market leader due to its full-service offering, close relationship with customers and commitment to Zero Harm.

Downer Mining's revenue increased by $150.7 million (31.2%) to $634.2 million, when compared with the previous half year. EBIT was 37.4% higher at $50.8 million and EBIT margin rose by 0.3 percentage points to 8.0 %.

The improved performance of Downer Mining is highlighted by the 3.2 percentage point increase in Return on Funds Employed (ROFE) to 15.4%.

Downer Mining's performance was driven by a number of large contract wins and renewals during the half year, in particular:

- a six-year contract, valued at approximately $3 billion, with Fortescue Metals Group Limited (Fortescue) for the provision of mining services at its Christmas Creek operation in the East Pilbara region of Western Australia. The Christmas Creek contract is one of the largest mining services contracts of its type in Australia; and

- contracts with BHP Billiton Mitsubishi Alliance (BMA) at Goonyella Riverside and Norwich Park Mines in the Bowen Basin, Central Queensland. The contracts, jointly valued at approximately $2 billion, are for load and haul of prestrip material and drill and blast services at Goonyella Riverside Mine, and for load and haul of prestrip material at Norwich Park Mine.

Both these major projects are making good progress.

In addition, in December 2010 Downer signed a five-year mining service agreement with Idemitsu Australia Resources Pty Ltd (Idemitsu) for the provision of mining services at Boggabri open-cut coal mine in the Gunnedah Basin, New South Wales.

This new contract starts in December 2011 and will extend the company's involvement at Boggabri to over a decade. Services provided will include drill and blast, mine planning, and load and haul of both overburden and coal. The value of the contract revenue will depend on the mine's production output, which has yet to be finalised. The base case values revenue at approximately $900 million over the duration of the contract.

Downer Blasting Services and Otraco International (Downer's tyre and rim management business), also won new contracts and contract extensions.

Downer Mining currently has work-in-hand worth $7.6 billion.

Downer Mining will continue to focus on extending and expanding its existing footprint and growing its blasting and tyre management services.

2. Downer Rail

Downer Rail continues to benefit from strong demand for resources, particularly coal and iron ore, which is driving demand for its narrow and standard gauge locomotives from customers including QR National, Pacific National and BHP Billiton.

Downer Rail is finalising the delivery of new, single-deck passenger cars for Queensland Rail and Perth's Public Transport Authority. State Governments are investing in passenger rail as population and patronage increases, although foreign competition is increasing in this market.

Downer Rail's revenue increased by $209.5 million (45.7%) in the half year to $667.5 million. Excluding the Waratah train project, revenue rose by $159.4 million (49.7%) to $480.2 million.

EBIT increased by $18.6 million (63.8%) to $47.7 million and EBIT margin was 0.7 percentage points higher at 7.1%.

Downer Rail's ROFE for the half year rose by 3.6 percentage points to 25.1%.

During the half year, Downer Rail secured:

- a negotiated contract valued at approximately $190 million to expand and upgrade Queensland Rail's fleet of high speed passenger diesel Tilt Trains that service the Brisbane to Cairns rail corridor. Downer has previously built both electric and diesel Tilt Trains for Queensland Rail and has been a supplier to, and partner with, Queensland Rail for over three decades. The new vehicles will be delivered progressively from April 2013;

- an order for 13 new standard gauge diesel electric locomotives to support Pacific National's coal haulage services in New South Wales. The fleet will be delivered progressively between mid-2011 and mid-2012 and the contract consolidates Downer's position in design, technology and maintenance capability in the locomotive market. Downer will maintain these locomotives for Pacific National;

- an order for seven new standard gauge diesel electric locomotives for Genesee & Wyoming, the first major investment by this customer since it acquired FreightLink in December 2010. The locomotives will be delivered in the fourth quarter of 2011. Downer will maintain these locomotives for GWA; and

- a contract extension for four new narrow gauge diesel electric locomotives to support Pacific National's coal haulage services in Queensland. These locomotives will be delivered in the second quarter of 2012 and increase this order quantity to 24 units. Downer will maintain these locomotives for Pacific National.

During the period, a new maintenance facility in Western Australia was commissioned to cater for BHP Iron Ore's locomotive overhaul requirements.

Downer Rail currently has work-in-hand worth $5.4 billion.

3. Downer Engineering (includes Consulting, Emerging Sectors and Asia)

Downer Engineering reported revenue of $1,171.8 million for the half year, an increase of 34.7% on the previous half year. However, EBIT was 15.9% lower at $48.4 million and EBIT margin was down 2.5 percentage points to 4.1%. Downer Engineering's ROFE rose by 1.7 percentage points to 25.2%.

The increase in revenue was driven by a number of projects including Collgar Wind Farms in Western Australia, the Mangoola coal project in New South Wales, the Curragh expansion in central Queensland, and construction of transmission lines from Yabulu South to Ingham in North Queensland.

The main reason for the lower EBIT and EBIT margin performance was very competitive market conditions with significant pressure on margins. In addition, tender costs were high and costs were incurred as capacity was maintained following delayed projects.

There have been a certain number of underperforming contracts during the first half, including the Curragh coal project in central Queensland. Action is being taken to address the performance of these projects. The impact has been included in the half year results and the outlook for the full year.

In addition, wet weather had a $4 million impact on Downer Engineering's EBIT for the half year.

Downer Engineering rationalised its underperforming regional offices in Asia during the six month period, including closing its office in Thailand.

The CPG consulting businesses in Australia and New Zealand experienced tough market conditions. The CPG Asia consulting business continued to perform well, although some projects have been slowed to reduce inflationary pressures in Singapore.

The CPG Resources business (incorporating QCC, MT and Snowden) is experiencing strong demand in the coal sector with markets in the industrial minerals business also responding to higher prices. There is also increased interest in front end metals projects in the Snowden business.

Downer Engineering won a number of new projects during the half year including a $120 million contract with Karara Mining Limited for the construction of a 180 kilometre, 330kV power transmission line from the Karara Iron Ore Project to Eneabba in Western Australia.

Downer Engineering currently has work-in-hand worth $2.2 billion.

On 22 February 2011, Downer announced it would be combining its Australian Engineering, Works and Emerging Sectors businesses into one new division, Downer Australia. Details of that announcement are available on the Downer website (www.downergroup.com).

4. Downer Works (includes Works Australia, Downer New Zealand, and Works UK)

Downer Works' profitability was significantly affected by wet weather during the six month period, particularly in Eastern Australia. Wet weather had an $11.2 million impact on the Australian Works business during the half year and a $1.3 million impact on Downer New Zealand.

In addition, government expenditure on road and rail maintenance softened in both Australia and New Zealand and delays have been experienced to expected programs.

Downer New Zealand successfully completed the Vanuatu and Ruby Bay Bypass projects during the period and a joint venture project with Leighton has been substantially completed.

Economic conditions in New Zealand remain tough, however, and there is strong competition in all markets with discounting putting pressure on margins. There has been a significant reduction in expenditure by local governments and also the New Zealand Transport Authority with work awarded to the lowest price offered.

Downer New Zealand is continuing to restructure and drive efficiencies in response to these circumstances.

Downer Works' revenue was down $54.5 million (5.4%) to $957.0 million when compared with the previous half year and EBIT was $27.0 million lower (57.9%) at $19.7 million. EBIT margin was down 2.5 percentage points to 2.1% and ROFE fell 9.1 percentage points to 12.8%.

Despite the impact of severe weather and the difficult market conditions, Downer Works has maintained its market leading position and secured a number of contract wins during the half year, including:

- the first contract win for the strategic join venture DownerMouchel, being an Integrated Service Arrangement with Main Roads Western Australia for the delivery of fence-to-fence road network asset management on more than 2,500 lane-kilometres of road within the Perth metropolitan network. The annual value is not fixed but is expected to be over $50 million each year for an initial period of five years with the opportunity to extend the agreement based on performance;

- DownerMouchel being awarded preferred supplier status by Main Roads Western Australia for the Mid-West ISA Agreement covering the Gascoyne region. It is expected that approximately $35 million will be spent each year for an initial period of five years with the opportunity to extend;

- a five year contract renewal, valued at over $30 million, to deliver routine road maintenance services on Yarra Ranges Council's road network east of Melbourne;

- the rail infrastructure business within Downer Works being contracted by Australian Rail Track Corporation (ARTC) to undertake rail upgrade work, as part of the Federal Government's Nation Building Rail Investment, including:
  - track duplication projects across NSW and Victoria;
  - re-railing of track on the north-south corridor between Albury and Geelong;
  - signalling separation work between Enfield and Port Botany, NSW; and
  - Upgrade of rail lines at Geelong Port and Altona, Victoria.

- an 18 month extension of the V1 Alliance with ARTC for rail track maintenance and infrastructure work in Victoria and southern New South Wales, continuing an alliance relationship spanning more than 10 years; and

- In New Zealand, over NZ$150 million of work predominantly in the transport and water sectors for key government and local government customers, along with a major civil site works contract for BP Oil NZ.

Downer Works currently has work-in-hand worth $5.3 billion.

On 22 February 2011, Downer announced it would be combining its Australian Engineering, Works and Emerging Sectors businesses into one new division, Downer Australia. Details of that announcement are available on the Downer website (www.downergroup.com).

Outlook

This "Outlook" section includes certain forward looking statements. Please see "Forward-Looking Statements" below for further information.

A number of factors are expected to affect Downer's performance in the second half of the year.

Downer Engineering will continue to experience strong competition, high tender costs, the completion of a number of underperforming contracts and the impact of maintaining capacity as a consequence of delayed projects.

Downer Works typically reports a higher contribution in the second half of the year, and a strong performance is expected again during the second half of this year, subject to weather conditions. This includes the commencement of projects relating to flood remediation work in Eastern Australia.

Downer New Zealand will continue to be affected by challenging economic conditions during the second half of the year.

Downer Mining will continue to ramp up work on its major projects, particularly at Goonyella, Norwich Park and Christmas Creek.

Strong demand for locomotives will keep Downer Rail's manufacturing and maintenance facilities close to capacity during the second half of the year, even though a number of projects were completed successfully during the first half of the year. Costs and delays associated with asbestos remediation works at the Cardiff facility in New South Wales will also be included in the result for the second half of the year.

Based on the above, and subject to risks including weather and market conditions, Downer Group expects to deliver underlying EBIT of around $300 million for the Full Year and underlying NPAT of around $169 million.

Forward-looking statements

This release contains certain "forward-looking statements", including under the headings "Fit for Business", "Waratah Update" and "Outlook", The words "forecast", "estimate", "likely", "anticipate", "believe", "expect', "project", "opinion", "predict", "outlook", "guidance", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking *statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements, and include statements in this release regarding the Downer's future financial and operating performance.*

You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this release are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements, including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance.

There can be no assurance that actual outcomes will not differ materially from forward-looking statements. Downer disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

An investment in Downer shares is subject to investment and other known and unknown risks, including, without limitation, risks associated with levels of economic activity and government spending, Downer's ability to undertake construction within the prices required under its contracts, the ability of contractual counterparties, including suppliers and customers, to perform under their contracts, competition in the industries in with Downer operates and its ability to win future contracts, the outcome of any litigation against Downer, industrial accidents or other operational issues, the level of asset impairments in any period, access to labor and Downer's relations with labor, financial risks associated with Downer's indebtedness including continued compliance with covenants, and interest rate movements and risks associated with the Waratah project, including Downer's ability to complete works under the contract in the time and at the specifications and costs required.

Downer does not guarantee any particular rate of return or the performance of Downer.

The securities referred to herein may not be offered or sold in the United States, or to or for the account or benefit of, any "U.S. person" (as defined in Regulation S under the United States Securities Act of 1933 (Securities Act), unless the securities have been registered under the Securities Act or an exemption from the registration requirements under the Securities Act is available.